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SIPDIS

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SUBJECT: ECUADOR FISCAL TRANSPARENCY REPORT 2008

REF: State 16737

1. The Government of Ecuador is recipient of U.S. assistance monies under the FY2008 Foreign Operations Appropriations Act. The following is a narrative on fiscal transparency in Ecuador, as requested in reftel.

The Government of Ecuador publishes budget data, which is reasonably transparent and reliable, as required by a 2002 law on fiscal responsibility and transparency. After the annual budget is approved by the Congress, the Administration has considerable discretionary authority over actual expenditures. In recent years, tax revenues and petroleum income have exceeded that projected in the budget, as have expenditures. The Government of Ecuador publishes both the approved budget and actual revenues and expenditures.

The Ministry of Economy and Finances (MEF) publishes budget data on a regular basis on the internet. Revenues and expenditures are included in the publicly-available information, although data are often aggregated at a fairly broad level. Data at the sub-account and line item level are not published as regularly, but can be obtained upon request. Off budget items, including the petroleum reserve funds, are reportedly separately. Given these limitations to the published data, a non-governmental organization also publishes monthly reports to clarify budget numbers.

The Correa Administration has submitted legislation to the Constituent Assembly to bring the petroleum reserve funds on budget, reduce earmarking, and establish a unified account for the federal budget. The Administration is also seeking to bring under the budget a subsidy program for gasoline and other petroleum derivatives, which has been funded indirectly through the parastatal petroleum company. These changes should simplify the currently complex budgetary process and facilitate increased transparency.

Currently, Ecuador does not have a system to monitor the use of government monies once the Ministry of Economy and Finance transfers the funds to other ministries and agencies. There is considerable discretion in the intergovernmental transfer process, and the state-owned sector is large and poorly regulated. The changes being developed by the Correa Administration could facilitate the oversight that the Ministry of Economy and Finance has over the end-use of government funds.

In 2002-2007, USAID provided the Ministry of Economy and Finance technical assistance to enhance fiscal transparency and improve reporting of fiscal revenues and expenditures. The Ministry of Economy and Finance is implementing a new information system program provided by the World Bank, which should improve financial

management effectiveness and transparency and contribute to better government financial reporting. Because of complications from the implementation of the new system, fiscal data was not available on the internet from November 2007 to February 2008, but the Ministry has offered to provide the data by other means.

In 2003, Ecuador volunteered for the IMF to report on the country's compliance with standards and codes covering fiscal transparency. Ecuador does not currently have a borrowing program with the IMF, but does participate in periodic IMF reviews.

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